

THE *PETROL*
OIL & GAS COMPANY LIMITED

1966 ANNUAL REPORT



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46th

annual report

THE *PETROL*
OIL & GAS COMPANY LIMITED

Incorporated under the Laws of the Province of Ontario, 1920

APR 28 1967

Officers and Directors

C. S. Lee, *President, Calgary, Alberta*
A. H. Ross, *Vice-President, Calgary, Alberta*
L. G. Elhatton, *Secretary-Treasurer, Calgary, Alberta*
Harold Howard, *Director, Calgary, Alberta*
James L. Lewtas, *Q.C., Director, Toronto, Ontario*
F. R. Matthews, *Q.C., Director, Calgary, Alberta*
Robert Tetrault, *Director, Calgary, Alberta*

Transfer Agents

Crown Trust Company — Toronto, Ontario

Head Office

80 King St. W., Toronto, Ontario

General Office

630 - 6th Avenue S.W., Calgary, Alberta

Subsidiary Companies

The Petrol Oil and Gas Corporation
Petrol Mineral Enterprises Ltd.

Annual Meeting

The next annual general meeting of the shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario, on April 27th, 1967, at the hour of 3:00 o'clock in the afternoon. A formal notice of the meeting, together with a form of proxy is enclosed with this report.

To The Shareholders

OPERATING RESULTS:

GROSS INCOME The Company's gross income in 1966 totalled \$571,000, up \$37,000 (6.9%) over last year. Details of this change appear in the table at right centre. The improvement in earnings is attributable to an 8.4% rise in crude oil sales, most of which originated from the Mitsue and Simonette fields in Alberta.

CASH EXPENSES Production expenses amounted to \$166,000 (\$159,000 in 1965), the 4.4% increase is due to the larger number of wells operated, since on a unit of production basis, operating costs were lower than last year by 3.6%. Interest expense during 1966 was \$30,000 (\$15,000 in 1965) as a result of loans used to finance the Company's exploration and development programme.

NON-CASH EXPENSES Depreciation and depletion charges amounted to \$179,000 in 1966 (\$177,000 in 1965).

NET INCOME In 1966, Petrol's net income on operations amounted to \$156,000 (\$145,000 in 1965). In the latter year, a \$22,000 gain on the sale of securities raised total net income to \$167,000.

CASH FLOW Petrol's cash flow from operations in 1966 amounted to \$335,000, up from \$322,000 during the previous year.

EXPENDITURES Petrol and its subsidiaries spent \$462,000 to find and develop crude oil and natural gas reserves in 1966 compared with \$725,000 last year. As will be noted in the tabulation lower right, expenditures for land and rentals were substantially less than in the previous year. The emphasis during 1966 was upon the acquisition of exploratory acreage rather than the high-priced semi-proven acreage purchased last year in the Mitsue field.

SOURCE OF FUNDS The funds for the above expenditures were derived primarily from cash generated from operations, (\$335,000) and secondly by a loan from the parent company (\$150,000). Working capital at the year end was \$216,000 compared to \$193,000 last year.

In Brief

	1966	1965
FINANCIAL		
Gross Income	\$ 571,000	\$ 534,000
Cash Flow from Operations	335,000	322,000
Per Share	\$.084	\$.080
Net Income on Operations	156,000	145,000
Per Share	\$.039	\$.036
Gain on Sale of Securities	—	22,000
Net Income for Year	156,000	167,000
Working Capital	216,000	193,000
Expenditures for Finding and Developing Reserves	\$ 462,000	\$ 725,000
OPERATING		
Production — net barrels	205,000	188,000
Proven and Probable Additional Reserves:		
Oil and Condensate—gross barrels	8,805,000	7,786,000
Natural Gas—gross mcf	4,900,000	5,200,000
Land—gross acres	2,842,000	471,000
Land—net acres	316,000	144,000

Analysis of Gross Income (Thousands of Dollars)

	1966	1965	Change
Crude Oil Sales	\$528	\$487	\$+41
Natural Gas Sales	27	30	- 3
Royalty Revenue	8	11	- 3
Net Oil and Gas Sales	563	528	+35
Interest and Other Income	8	6	+ 2
Gross Income	\$571	\$534	\$+37

Expenditures for Finding and Developing (Thousands of Dollars)

	1966	1965
Land and rentals	\$185	\$488
Geological and geophysical	22	4
Non-productive drilling	16	39
Productive drilling	175	125
Production equipment	64	69
Total	\$462	\$725

PRODUCTION

Petrol's net oil production totalled 204,600 barrels during 1966, an increase of 16,200 barrels (8.6%).

In Canada production rose by 19,000 net barrels (11.3%); in the U.S.A. natural decline of the wells reduced output by 2,800 barrels. The Mitsue and Simonette fields in Alberta were the main sources of the year's larger volumes. The Company's average price for crude oil remained unchanged at \$2.59 per barrel.

RESERVES

A summary of the Company's crude oil and natural gas reserves is presented below with comparative figures for the previous year. The reserves have been estimated by an independent consultant with the exception of the small reserves in the United States which were computed by the Company's engineers.

	January 1	
Proven and Probable Additional	1967	1966
Crude Oil Reserves (gross barrels)	8,805,000	7,786,000
Natural Gas (gross mcf)	4,900,000	5,200,000

CRUDE OIL AND CONDENSATE

Crude oil reserves, including condensate, amounted to 8,805,000 gross barrels at January 1, 1967, an increase of 1,019,000 barrels over last year, after making allowance for 242,000 gross barrels produced during 1966. The increase in these reserves is attributable to the development of new properties and to an upward appraisal of the Simonette reserves.

NATURAL GAS

The Company's natural gas reserves on January 1, 1967, were calculated to be 4.9 billion cubic feet; adjustments of the Simonette D1 and Cadomin gas reserves account for the decrease from last year's reserves of 5.2 billion cubic feet. The Company is hopeful that a market for some of these reserves will be realized before the end of 1967.

DRILLING

During 1966, Petrol participated in the drilling of 22 wells consisting of 18 development wells and four exploratory wells. Of the 18 development wells, 17 were successfully completed as oil producers and one was a dry hole. Two-thirds of the development wells were drilled in the Mitsue and Pembina fields of Alberta. Exploratory drilling resulted in four dry holes. Petrol's interest in all wells averaged slightly over 10%.

NET OIL PRODUCTION SUMMARY

(Thousands of barrels)

	1966	1965	% Change
Canada	187.6	168.6	+ 11.3
United States	17.0	19.8	—14.1
Total	<u>204.6</u>	<u>188.4</u>	<u>+ 8.6</u>

OIL PRODUCTION BY FIELDS

Net Barrels

	1966	1965
ALBERTA		
Fenn	11,516	10,798
Mitsue	15,771	2,474
Pembina	61,075	62,890
Simonette	57,440	49,840
Swan Hills	9,104	9,522
Turner Valley	12,337	12,286
Other Fields	6,020	6,337
TOTAL	<u>173,263</u>	<u>154,147</u>
SASKATCHEWAN		
Instow	9,297	10,412
Other Fields	4,992	4,061
TOTAL	<u>14,289</u>	<u>14,473</u>
UNITED STATES		
Texas	17,023	19,794
TOTAL	<u>204,575</u>	<u>188,414</u>

AREAS OF MAJOR INTEREST

LAND

At December 31, 1966, Petrol's acreage holdings totalled 2,842,000 gross acres (316,000 net acres); on the same date last year the acreage holdings were 471,000 gross (144,000 net) acres. A summary of these holdings by areas is presented below.

THE MUSKEG - KEG RIVER PLAY

The discoveries in the Rainbow Lake area and northward to Zama Lake in the Muskeg-Keg River formations have continued to dominate the exploration scene in Western Canada during 1966. Discoveries at Bistcho Lake and at Beatty Lake have moved the play to the southern edge of the Northwest Territories.

Based upon a decision to establish a land position along the prospective Rainbow Lake type (Muskeg-Keg River) trends, your Company now owns approximately a 10% interest in some 2,262,000 gross acres. Of this total 1,108,000 gross acres are located in the Northwest Territories, 244,000 in northern Alberta, 897,000 in Saskatchewan and 13,000 in British Columbia. Most, but not all of these acreage blocks are shown on the accompanying maps to the right.

While current interest is concentrated mainly to Keg River-Muskeg formations in northern Alberta,

your Company has protected its interests with a strong land position in Saskatchewan. Saskatchewan is not subject to proration to market demand. If a discovery of the Rainbow Lake type were made in this Province, the oil from such discovery would find immediate markets. Your Company has also taken land positions along the Mississippian and Upper Devonian trends in southeast Saskatchewan; a discovery in these formations at Hummingbird has created new interest in the deeper horizons in this area.

POINTED MOUNTAIN, N.W.T.

Petrol also acquired a 10% interest in three permits totalling 156,000 acres approximately 17 miles north of a gas discovery in the Middle Devonian. The well is reported to have opened a gas zone in excess of 700 gross feet. The net pay thickness in the 700 feet has not been revealed.

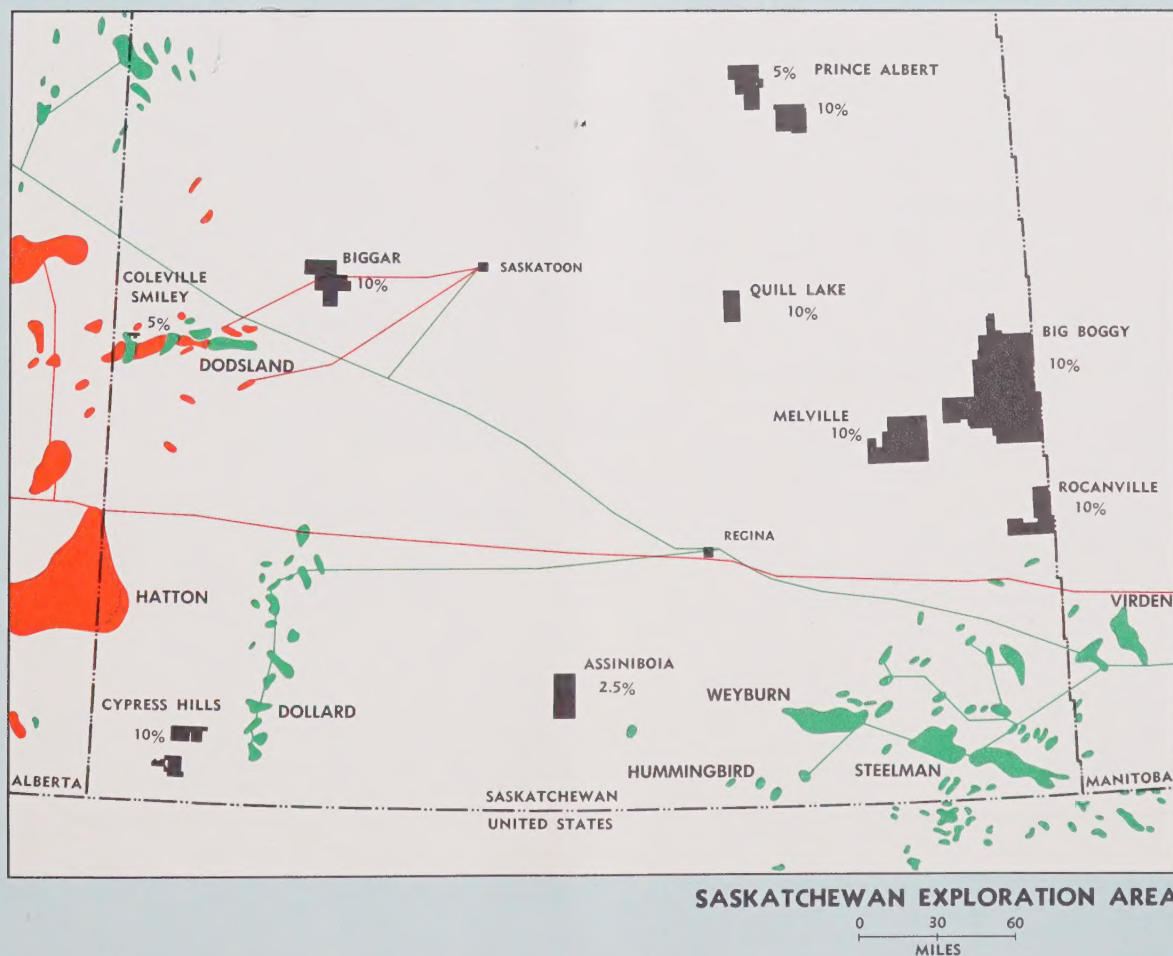
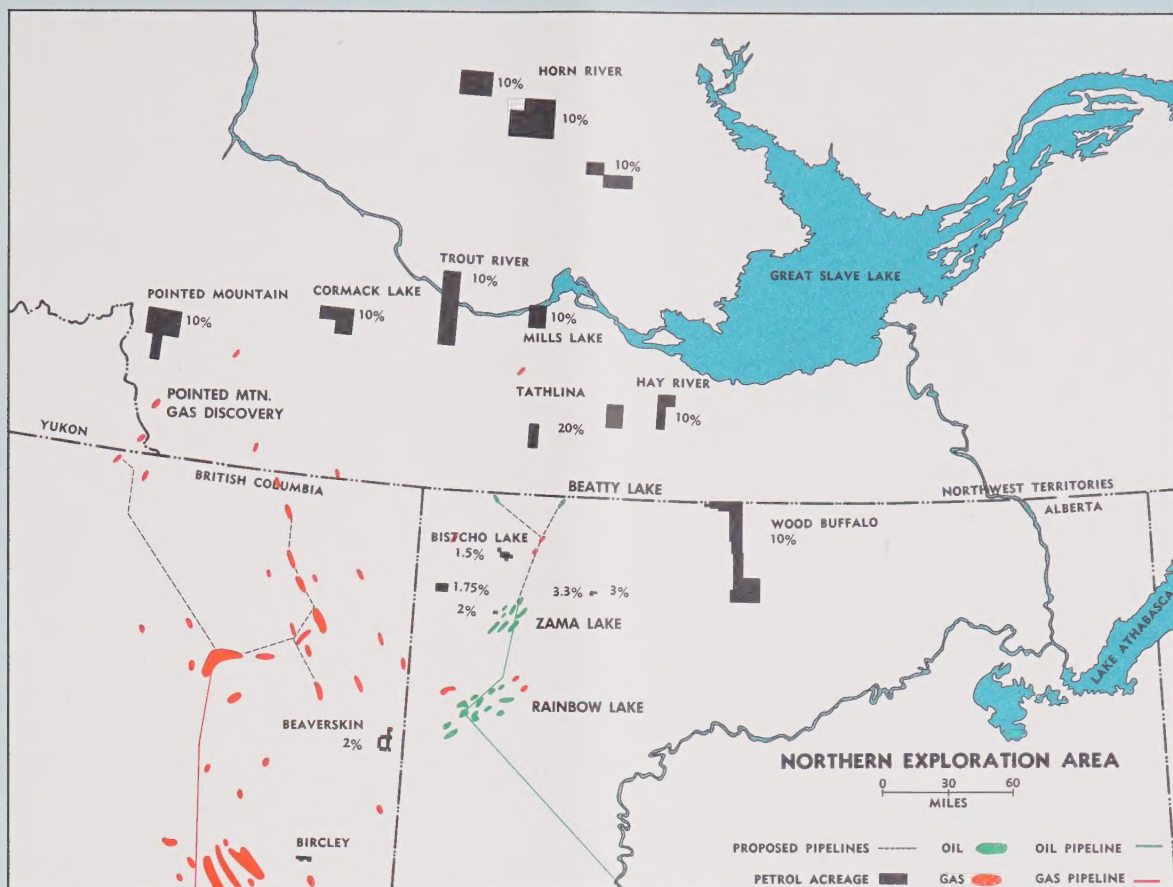
SIMONETTE, ALBERTA

Early in 1967, the D3 oil field production was unitized. It is anticipated that the number of wells required to produce the allowable from this pool will be greatly reduced with a resulting decrease in operating costs. Residue gas from the D3 is also now being gathered and sold. A plan for the unitization and eventual marketing of the D1 gas reserves at Simonette is currently being studied.

SUMMARY OF ACREAGE HOLDINGS

	Petroleum and Natural Gas Leases		Reservations, Licences Permits (1)		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	154,600	23,100	272,800	25,100	427,400	48,200
British Columbia	5,500	700	19,700	600	25,200	1,300
Northwest Territories	—	—	1,263,600	135,800	1,263,600	135,800
Ontario	34,000	34,000	—	—	34,000	34,000
Saskatchewan	4,600	500	1,087,400	96,300	1,092,000	96,800
	<u>198,700</u>	<u>58,300</u>	<u>2,643,500</u>	<u>257,800</u>	<u>2,842,200</u>	<u>316,100</u>

(1) Convertible into leases to the extent of approximately 50%.



CONSOLIDATED

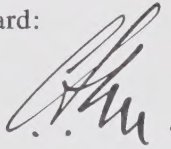
ASSETS

	AS AT DECEMBER 31	
	1966	1965
CURRENT:		
Cash	\$ 90,700	\$ 40,203
Accounts receivable	33,982	22,263
Due from affiliated company	120,000	150,000
Prepaid expense	626	626
	<u>245,308</u>	<u>213,092</u>
REFUNDABLE DEPOSITS	<u>1,469</u>	<u>1,562</u>
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of \$1,602,503 (1965 - \$1,533,679)	2,789,940	2,510,192
Plant and equipment less accumulated depreciation of \$646,411 (1965 - \$604,217)	299,176	295,746
	<u>3,089,116</u>	<u>2,805,938</u>
OTHER:		
Sundry investments at cost	<u>796</u>	<u>796</u>
	<u>\$3,336,689</u>	<u>\$3,021,388</u>

See accompanying notes to c

BALANCE SHEET

LIABILITIES

	AS AT DECEMBER 31	
	1966	1965
CURRENT:		
Accounts payable and accrued charges	\$ 16,142	\$ 13,054
Due to parent company	13,253	6,557
	<u>29,395</u>	<u>19,611</u>
NOTES PAYABLE TO PARENT COMPANY DUE		
MARCH 31, 1968	<u>575,000</u>	<u>425,000</u>
SHAREHOLDERS' EQUITY:		
Capital—		
Authorized—8,000,000 shares of no par value		
Issued —3,995,000 shares	2,743,500	2,743,500
Deficit (Statement page 8)	11,206	166,723
	<u>2,732,294</u>	<u>2,576,777</u>
On behalf of the Board:		
 Director.		
 Director.		
	<u>\$3,336,689</u>	<u>\$3,021,388</u>

dated financial statements.

THE **PETROL**
OIL & GAS COMPANY LIMITED
(No personal liability)
AND ITS SUBSIDIARY COMPANIES

Consolidated Statement of Income

	FOR THE YEARS ENDED DECEMBER 31	
	1966	1965
Net oil and gas sales	\$562,355	\$527,525
Interest and other income	8,381	6,392
	<u>570,736</u>	<u>533,917</u>
Deduct:		
Production expenses	166,152	158,903
General and administrative expenses	40,379	38,373
Interest expense	29,513	14,971
	<u>236,044</u>	<u>212,247</u>
Cash flow from operations	334,692	321,670
Depreciation and depletion	179,175	176,529
Net income on operations	155,517	145,141
Gain on sale of securities	—	22,148
Net income for the year (See notes)	<u>\$155,517</u>	<u>\$167,289</u>

Consolidated Statement of Deficit

	FOR THE YEARS ENDED DECEMBER 31	
	1966	1965
Balance of deficit at beginning of year	\$166,723	\$334,012
Net income for the year	155,517	167,289
Balance of deficit at end of year	<u>\$ 11,206</u>	<u>\$166,723</u>

See accompanying notes to consolidated financial statements.

THE **PETROL**
OIL & GAS COMPANY LIMITED
(No personal liability)
AND ITS SUBSIDIARY COMPANIES

Consolidated Statement of Source and Application of Funds

	FOR THE YEARS ENDED DECEMBER 31	
	1966	1965
Source of Funds:		
Cash flow from operations	\$334,692	\$321,670
Gain on sale of securities	—	22,148
Loan from parent company	150,000	425,000
Other	93	(218)
	<u>484,785</u>	<u>768,600</u>
Application of Funds:		
Additions to property and equipment	462,353	725,403
Increase in working capital	<u>\$ 22,432</u>	<u>\$ 43,197</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 1966

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The accounts of a subsidiary company operating in the United States are, for purposes of consolidation, included on the basis of \$1 U.S. equals \$1 Canadian. Net assets so converted amounted to \$245,489 U.S.

2. ACCOUNTING PRACTICE

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. INCOME TAXES

Under Canadian income tax law, exploration and development expenditures including property acquisition costs may be deducted from income or, if such expenditures exceed the income for the year, the excess may be carried forward to subsequent years. No provision for income taxes was required for the year ended December 31, 1966 and at that date an excess of such expenditures (approximately \$1,650,000) was available to be carried forward against future taxable income.

TO THE SHAREHOLDERS OF

THE PETROL OIL & GAS COMPANY, LIMITED

We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited and its subsidiary companies as at December 31, 1966 and the consolidated statements of income, deficit and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income, deficit and source and application of funds present fairly the financial position of The Petrol Oil & Gas Company, Limited and its subsidiary companies at December 31, 1966 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & Co.

Chartered Accountants.

Calgary, Alberta.

March 10, 1967.

TEN YEAR STATISTICAL SUMMARY

INCOME	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957
Net oil and gas sales	\$563,000	528,000	533,000	499,000	457,000	443,000	414,000	442,000	463,000	357,000
Interest and other income	8,000	6,000	10,000	13,000	7,000	3,000	12,000	11,000	9,000	26,000
Gross income	571,000	534,000	543,000	512,000	464,000	446,000	426,000	453,000	472,000	383,000
EXPENSES										
Production	166,000	159,000	160,000	166,000	140,000	142,000	126,000	122,000	109,000	89,000
General and administrative	40,000	38,000	37,000	41,000	47,000	43,000	53,000	62,000	74,000	58,000
Interest	30,000	15,000	—	—	15,000	8,000	10,000	13,000	1,000	5,000
Total	236,000	212,000	197,000	207,000	202,000	193,000	189,000	197,000	184,000	152,000
CASH FLOW FROM OPERATIONS ..	335,000	322,000	346,000	305,000	262,000	253,000	237,000	256,000	288,000	231,000
NET INCOME (LOSS) ON OPERATIONS	156,000	145,000	199,000	78,000	(34,000)	11,000	9,000	(127,000)	11,000	(45,000)
Gain on sale of securities	—	22,000	9,000	20,000	8,000	32,000	—	—	—	—
NET INCOME (LOSS)	156,000	167,000	208,000	98,000	(26,000)	43,000	9,000	(127,000)	11,000	(45,000)
WORKING CAPITAL	216,000	193,000	150,000	415,000	345,000	278,000	203,000	225,000	334,000	481,000
EXPENDITURES										
Exploration and development	462,000	725,000	527,000	258,000	202,000	213,000	286,000	394,000	428,000	1,122,000
OIL PRODUCTION										
Net barrels	205,000	188,000	191,000	180,000	166,000	164,000	151,000	165,000	162,000	121,000
RESERVES (3)										
Oil - gross barrels	8,805,000	7,786,000	7,458,000	4,572,000	4,617,000	4,571,000	4,899,000	4,346,000	1,850,000	1,680,000
Gas - gross mcf.	4,900,000	5,200,000	3,700,000	3,700,000	3,700,000					
LAND HOLDINGS										
Gross acres	2,842,000	471,000	450,000	457,000	539,000	362,000	609,000	745,000	948,000	623,000
Net acres	316,000	144,000	147,000	143,000	147,000	74,000	103,000	159,000	262,000	197,000
SHARES OUTSTANDING	3,995,000	3,995,000	3,995,000	3,995,000	3,995,000	3,995,000	3,995,000	3,995,000	3,970,000	3,970,000

Notes: (1) The above statistics are for The Petrol Oil & Gas Company, Limited and its wholly-owned subsidiaries.

(2) Full-cost method of accounting for exploration and development expenditures was adopted in 1964.

(3) Includes proven and probable additional reserves.

10-YEAR TRENDS

